



DEPARTMENT OF THE NAVY
NAVAL SUPPLY SYSTEMS COMMAND
5450 CARLISLE PIKE
PO BOX 2050
MECHANICSBURG PA 17055-0791

TELEPHONE NUMBER
COMMERCIAL
AUTOVON
IN REPLY REFER TO:

4200
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17 OCT 01

From: Commander, Naval Supply Systems Command

Subj: INTERIM CHANGE TO NAVSUPINST 4200.94; DON PURCHASE CARD
PROGRAM INTERNAL MANAGEMENT CONTROLS

Ref: (a) NAVSUPINST 4200.94
(b) SECNAVINST 7320.10

Encl: (1) DOD PCJPMO memo of 5 Jul 01
(2) OUSD memo of 13 Aug 01

1. Enclosures (1) and (2) provide clear direction to Department of the Navy's (DON) commanders, commanding officers and directors operating Governmentwide purchase card programs on the necessity to ensure that effective internal management controls are established to minimize the potential for fraud, misuse and abuse. Two key internal management controls for proper execution of a purchase card program are "span of control" and management of cardholder accounts. The purpose of this policy letter is to provide Departmental policy on establishing effective internal management controls.

2. A fundamental safeguard for effectively managing a local purchase card program is the timely and accurate review of purchase card statements/invoices by DON's approving officials. One major factor in the internal review process is the "span of control" or the number of purchase cardholders who submit statements/invoices to the approving official for review and certification. Recent audits by agencies outside the Department revealed an unacceptable "span of control" between approving officials and cardholders at many DON activities. Therefore, the purpose of this policy letter is to establish guidelines for DON's purchase card activities when creating the hierarchy assigning cardholders to a specific approving official. Approving officials should have no more than five to seven cardholders under their cognizance. This ratio is subject to further reduction and modification if the volume of purchase card transactions creates a situation that inhibits the approving official from performing an effective review of the statements/invoices of their purchase cardholders. The approving official is our first line of defense against fraud, misuse and abuse. Their primary responsibility is to review each of the statements of the cardholders assigned to them and ensure that those transactions are proper. If they have too many cardholders under their purview, these officials cannot

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perform the required review and subsequent certification of cardholder purchases.

3. A second fundamental internal management control is the proper management and maintenance of purchase cardholder account profiles. Departmental activities operating purchase card programs shall ensure the following internal management controls are in place to effectively operate a local purchase card program:

a. Management. Activities shall establish local policies and procedures for approving and issuing purchase cards to activity personnel. As a minimum, DON personnel who are prospective purchase cardholders must meet the following criteria prior to receipt of a purchase card account including an accommodation check accounts, established in their name:

(1) Potential purchase cardholders require the purchase card for mission essential requirements;

(2) Purchase card accounts shall only be established where the department, division, unit, program, work code or group anticipates the potential cardholder will require regular usage (in cases where purchase cardholders have irregular or minimal usage, open accounts pose potential risks to the local and DON program);

(3) Someone in the prospective purchase cardholder's direct chain of command will be the cardholder's approving official;

(4) The potential purchase cardholder will not cause his/her prospective approving official to exceed his/her "span of control";

(5) Receipt of a written request by the Agency Program Coordinator (APC) from the prospective cardholder's first line supervisor, requesting that the APC establish a purchase card account for the designated prospective cardholder. The written request shall contain a statement that issuance of the card is essential to meet mission requirements and shall identify the type and kinds of items that will normally be purchased and the single and monthly transaction limits anticipated for the cardholder. The request should also state that the prospective cardholder has the training, business acumen and judgment to act on behalf of the Government;

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(6) The APC shall verify that the prospective cardholder has successfully completed DON's purchase card training requirements as stipulated in reference (a);

(7) The individual has been issued a letter of delegation or contracting officer's warrant per reference (a).

b. Maintenance. APCs shall perform regularly scheduled maintenance on their purchase card program accounts. As a minimum, on a monthly basis, APCs should ensure that the account profile information is verified and remains current following with mission requirements;

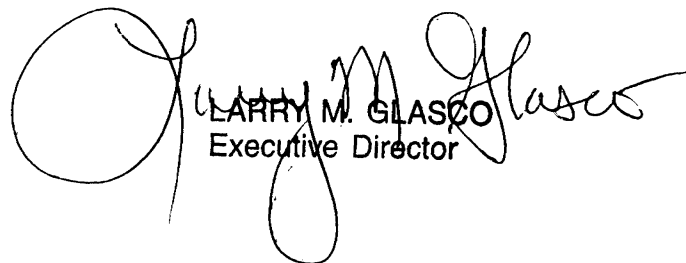
(1) Cardholder letters of delegation/warrants, merchant category code authorizations and single/monthly purchase limits are current and appropriate for local mission requirements;

(2) Cardholder usage remains regular and there are no open, irregular or minimum usage accounts posing a risk to the program;

(3) Cardholder and approving official accounts are up to date and an adequate "span of control" is maintained.

4. In addition, as part of proper overall internal management controls, the APC shall ensure the process by which receipt, inspection and acceptance of items purchased with the purchase card are being accomplished following reference (a) and that items purchased with the purchase card are being properly recorded in property accountability records as stipulated in reference (b).

5. Implementation of this policy by all DON activities operating and managing a purchase card program shall be immediate. Point of contact regarding this policy letter is Mr. Clay Welker at DSN 430-7502, 717-605-7502 or via e-mail at clay_w_welker@navsup.navy.mil.


LARRY M. GLASCO
Executive Director



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

05 JUL 2001



SAAL-PI

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(ACQUISITION, LOGISTICS AND TECHNOLOGY)
ASSISTANT SECRETARY OF THE NAVY (RESEARCH,
DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE
(ACQUISITION)
DIRECTORS, DEFENSE AGENCIES

SUBJECT: Internal and Management Controls – DOD Purchase Card Program

One of the basic tenets of the purchase card program is that fraud-related losses, while unavoidable, can be managed so as to protect the interests of the American taxpayer. Underlying this principle is the need for a system of internal and management controls. If implemented properly, the controls will minimize losses to a level that is reasonable when compared to industry standards as well as the savings that are generated through the use of the card. While I remain confident that the favorable ratio of savings to losses can continue well into the future, there is increasing evidence to suggest that management complacency may well threaten this "margin of safety" if we do not maintain a respectful vigilance.

Central to this vigilance is the allocation of appropriate resources to allow program officials to perform their duties accurately and completely. Audit communities repeatedly advise me that they continue to find instances of an unacceptable span of control between billing officials and cardholders. Billing officials are our first line of defense against fraud, waste, and abuse, as they are required to review each of their cardholder statements. If they have too many cardholders under their purview there is no way these officials can perform the required reviews and attendant certifications of cardholder purchases. As a general rule of thumb, a billing official should have no more than 5-7 cardholders assigned to them for oversight. Of course, this ratio is subject to review if the billing official has one or more cardholders who make many purchases during the month. Similar breakdowns in the chain of controls takes place if agency program coordinators at the base/installation level are assigned responsibility for

the card program as a collateral duty without the required time and attention to devote to the program. Installation/base level agency program coordinators must be given adequate resources to complete the annual or semi-annual compliance reviews required by your card programs in addition to their routine training, account establishment and maintenance duties.

There is more than anecdotal evidence to suggest that the cited beleaguered officials are becoming more the norm than the exception within the Department. In the coming weeks I would ask that you conduct an assessment of the policies and guidelines that are in effect to assist commanders and directors in the proper allocation of resources to the purchase card program. If you have any questions, please do not hesitate to contact me at (703) 681-7564 or my Deputy, Dennis Hudner, at (703) 681-3315.



Bruce E. Sullivan
Director, Purchase Card Joint
Program Management Office

CF:

Under Secretary of Defense (Acquisition & Technology)

Under Secretary of Defense (Comptroller)

Assistant Secretary of the Army (Financial Management & Comptroller)

Assistant Secretary of the Air Force (Financial Management & Comptroller)

Assistant Secretary of the Navy (Financial Management & Comptroller)

Director, Defense Finance and Accounting Office

Directors, DOD Field Activities



OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301 3000

AUGUST 13, 2001

DP(EB)

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT), ASA(AIT)
EXECUTIVE DIRECTOR, ACQUISITION AND BUSINESS
MANAGEMENT, ASN(RD&A)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
GOVERNMENT PURCHASE CARD JOINT PROGRAM
OFFICE

SUBJECT: Government Purchase Card Internal Controls

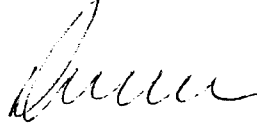
A recent Congressional hearing highlighted the need to ensure proper oversight of DoD's purchase card program at all levels, but especially at the post/camp/station level. Request your assistance in ensuring that the purchase card program under your control observes the following controls:

- Billing officials/approving official must review each cardholder's billing statement every month to verify the card holder was authorized to buy the items on it, the items have been received by the Government, and all pilferable items and other qualifying items have been properly recorded on government property records.
- Only those personnel with a continuing need to purchase goods or services as part of their job should be cardholders.
- Not every cardholder needs to have the maximum transaction or monthly limit. Supervisors should set reasonable limits, based on what the person needs to buy as part of his/her job.
- Ideally, the billing or approving official should be the cardholder's direct supervisor. Each billing official should have a reasonable span of control over cardholders so the official can completely review the monthly billing statements within 5 days after receipt. The DoD average is 4 cardholders per billing official.
- The same person should not buy and receive the item.
- Finally-- make sure you obtain any earned rebate!



I encourage you to perform frequent spot checks of the internal controls, including using the audit activities and inspector's general assigned to your organizations.

Thank you for your assistance and cooperation in creating a reliable government purchase card program. My action officer for purchase card issues is Melissa Rider, melissa.rider@osd.mil or (703) 695-1098.

A handwritten signature in black ink, appearing to read "Deidre A. Lee". The signature is fluid and cursive, with a large initial "D" and "A".

Deidre A. Lee
Director, Defense Procurement